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SUBJECT: THE SRI LANKAN TOURISM SECTOR: A BRIGHT FUTURE
WITH CHALLENGES

11. (U) SUMMARY: With the end of Sri Lanka's long running war with the Liberation Tigers of Tamil Eelam (LTTE) in May 2009, the Sri Lankan tourism industry has every reason to be quite optimistic. Tourist travel is at its highest levels since 12004. The country boasts beautiful beaches, seven UNESCO World Heritage Sites, 14 wild-life parks, and diverse flora and fauna. Challenges do remain, with red-tape, stressed or non-existent infrastructure in some areas, and brain drain all daunting impediments to hotel and tourism development.

THE STATE OF TOURISM

12. (U) Sri Lanka had a strong tourism industry prior to the beginning of the conflict in 1983, and now they hope to make tourism a major employer and source of foreign exchange revenue. Since the LTTE's defeat in May 2009, and with the relaxation of some travel advisories for Sri Lanka, the country has seen a significant increase in tourism. Overall, travel to Sri Lanka has seen a 34.3% increase year on year. European travelers comprise slightly more than 50% of the total number of tourists visiting the country. India accounts for about 20% of tourist arrivals, while the Middle East and East Asia comprise another 25%. The remaining 5% of visitors are generally from North America and Africa. The Sri Lankan Hotel Association, which tracks arrivals by nationality, recently told Econoff that tourists from the United States make up a very small percentage of Sri Lankan tourism market. Visitors from Russia are also a growing niche, with increases in visitors each year since 12006. Sri Lanka currently has 14,800 registered hotel rooms nationwide and aims to have more than 50,000 registered hotel rooms by 2016. The Government of Sri Lanka (GSL) has set a target of 2.5 million visitors per year by 2016, with an average stay of 8.5 nights per visitor.

PROSPECTS IN THE EAST

13. (SBU) The Eastern Province of Sri Lanka represents a significant untapped region for tourism development. Over the next 2-3 years, the Sri Lankan Ministry of Tourism plans to focus on significant expansion in the mid-range

and high end hotel market along the eastern coast. The GSL will need to invest heavily in infrastructure (roads, water, sewage) if hotel and tourist expansion is to be adequately supported. The GSL plans to also invest heavily in extensive refurbishment of regional airports, to facilitate ease of tourist movement from western Sri Lanka to southern and eastern destinations. In 2010, the GSL hopes to lure Thailand-based Minor Group, which owns/operates several Four Seasons Hotels and Resorts in Southeast Asia, to the country with an ultimate aim of obtaining long-term luxury investment in the Eastern Province.

THE WEST AND SOUTH

14. (U) Despite stressed infrastructure and lack of an existing plan for expansion, the Western and Southern Provinces also factor into tourism development plans. Plans are underway by Jetwing Hotel's to build several high end hotels along the western and southern coasts over the next 3-5 years. Other hoteliers such as Aiken Spense and John Keells have existing plans to construct high end hotel properties over the next several years. Current expansion plans have the support of both the Sri Lankan Tourism Development Authority and the Ministry of Tourism. Both entities see a dearth of high-end properties in the Western and Southern Provinces and want to see an increase in room rates through a higher class of hotel.

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CHALLENGES REMAIN TO BUILD A WORLD CLASS INDUSTRY

15. (SBU) While the GSL desires to transition the country into a tourist hub which rivals that of Thailand and Malaysia, significant hurdles must be overcome. In order to secure an international class of hotelier, the GSL will need to develop a 'fast track' procedure to deal with development approvals and existing bureaucracy. According to the Tourist Hotels Association, efforts to lure foreign hotel operators to Sri Lanka will stall if approvals are not fast-tracked to keep up with the speed of business. Stressed infrastructure in some areas and lack of infrastructure in others is another significant impediment. Water, sewage, roads, and in some cases electricity are areas which will need to be addressed in the west, south, and east if the GSL hopes to support significant expansion of its tourism sector. Brain drain is yet another issue. For nearly 30 years, the best and brightest of the indigenous hotel industry moved on to the Middle East or Southeast Asia in search of work. The GSL would like to tap into this resource (more than 206,000 Sri Lankans work in the hotel sector outside the country); however, no plan is in place to lure this pool of talent back to the country.

16. (SBU) Comment: Sri Lankans often characterize the country as a five star island with three star hotels. While the GSL has ambitious plans to become a tourist hub, unless there is careful planning to avoid the mistakes made with past hotel and tourism expansion along the west coast, the country will struggle to maintain the momentum of its post-war tourism boom. The GSL will need to address the issue of infrastructure improvement along with hotel expansion. Should infrastructure improvement not materialize, foreign interest and investment in the hotel and tourism sector may fail to materialize as well. Sri Lanka, 'the small miracle,' has tremendous potential if it goes about expansion in a methodical and judicious manner. The GSL has precious little time to achieve demonstrable results, with its self declared 'Visit Sri Lanka 2011' just around the corner. End comment.

